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## A Historic Health-Care Moment

The House plan isn't perfect, but it's the only reform opportunity Republicans will get.

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The do-or-die moment for the Trump Administration and the GOP Congress arrived on Monday, as House Republicans rolled out their ObamaCare repeal-and-replace bill. The question now is whether they can deliver on their reform promises and govern to improve the lives of American voters.

The American Health Care Act would be the most consequential GOP social-policy reform since the welfare overhaul of 1996. Not only does the bill repair the failures of the Affordable Care Act, it starts to correct many of the government-created dysfunctions that have bedeviled U.S. health care for decades.

Opening this critical legislative campaign is a test of how well Republicans can manage political and economic reality. The House bill is a center-right compromise that works off a status quo that has accumulated for years, and its architects know they can't design a health-care system de novo. The bill has flaws that come from accommodating what the votes in Congress will allow. Still, if this passes, it will be a major achievement, and real progress.

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Though the individual insurance market dominates the debate, the House's Medicaid reform might be more important. This safety-net program originally meant for poor women, children and the disabled has morphed into general insurance for working-age, able-bodied adults above the poverty level, despite its low-quality care and price controls.

The House would convert Medicaid's funding formula from an open-ended entitlement into block grants to states. The amount would be determined by per capita enrollment and grow with

medical inflation. States would thus have a reason to set priorities and retarget Medicaid on the truly needy.

The GOP envisions giving Governors more regulatory power to run their own programs, and this flexibility would be accompanied by a new \$100 billion “stability fund” for use in the post-ObamaCare transition. We’ll have a fuller treatment of the Medicaid overhaul in the coming days, but this is the most meaningful modernization of the program since it was created in 1965.

The House transition lasts three years, until 2020, which underscores one of the downsides of using the budget “reconciliation” process. This procedure allows legislation to pass with merely 51 Senate votes but it comes with arcane rules and limitations such as reducing the deficit. Delaying some reforms is one side effect, and the GOP Governors who could take the most advantage of more flexibility might not be around in 2020.

Another unfortunate artifact of reconciliation is delaying the repeal of ObamaCare’s tax hikes until 2018. The bill gets rid of nearly all of them, from the medical device tax to the health insurance tax to the 3.8-percentage point Medicare payroll tax on “unearned income.” But better to backdate the action through this year. That would avoid capital lock-in and boost growth in 2017, because investors will otherwise await lower rates.

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In the individual market, the bill discards ObamaCare’s web of mandates and regulations in favor of incentives to buy health insurance on a deregulated market. ObamaCare’s subsidies are as much about income redistribution as access to care. For people who lack employer-sponsored insurance and aren’t eligible for Medicaid or Medicare, the House substitutes flat, age-adjusted tax credits that float from \$2,000 to \$14,000 a year as people get older.

A tax deduction is better economic policy but would offer less help to those with lower incomes. The House credits are also “refundable,” meaning they become a straight cash payment to those with no income tax liability. This is costly, but then only about 7% of the population is eligible.

The tax credits are also means-tested, phasing out after \$75,000 for individuals and \$150,000 for couples, or for roughly the top 10% of earners. Increasing inframarginal tax rates with benefit

cliffs is a problem, but the income caps are set high enough that effects on incentives to work won't be especially strong.

Far from a "Republican entitlement" or "ObamaCare Lite," the new tax credits start to fix a core bias of U.S. health care, which is that individuals buying insurance for themselves don't receive the same tax subsidy that flow to workers at businesses. A draft bill would have partially equalized the tax treatment of health insurance by capping this employer exclusion but the provision got left on the editing floor amid GOP and business opposition.

This is a bad policy blunder. The final bill retains ObamaCare's "Cadillac" tax on high-cost health plans but delays it until 2025. Maybe one day Congress will muster the political courage to take on the business lobby and limit this inefficient and regressive tax preference.

Confusion abounds over the bill's handling of pre-existing conditions. ObamaCare limits how far premiums can vary among people with different health risks. The House would allow premiums to differ closer to the true cost of care while repealing the individual mandate to buy coverage or else pay a penalty. To encourage continuous coverage, insurers could assess a 30% penalty for those who wait to sign up.

Critics claim this change will tank the insurance markets, but the GOP bet is that if insurers are allowed to sell lower-cost products that people want to buy, people will buy them without a mandate. By loosening rules that standardize coverage and extending financial help to consumers, the goal is to stand up a more vibrant market with more choices than ObamaCare permits.

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President Trump said Tuesday he is "proud" to support the House bill and hopes it passes quickly. His leadership will be critical, especially as strife grows on the right about the allegedly insufficient conservative purity of the House plan.

These critics say they want outright repeal first, and then maybe Congress can pass a replacement someday. But Mr. Trump ran on "repeal and replace" and House Republicans united around the "Better Way" plan. They promised real solutions to ObamaCare's problems.

Repeal-only can't pass the Senate in any case, because Senate Republicans—with good reason—don't want to accelerate ObamaCare's collapse or throw millions off the Medicaid rolls. Voters tend to punish parties that disrupt their insurance. Just ask Democrats.

In other words, the House bill is the only health-care show in town. If conservatives join Democrats to defeat the measure, the result will be to preserve ObamaCare as is—and probably torpedo the rest of the GOP agenda including tax reform. Good luck running for re-election in 2018 with a record of failure.

The House proposal can be improved with amendments—and more work will be necessary in future years to make medicine more affordable, promote innovation, protect the most vulnerable and give patients more control of their health-care dollars. But the bill is a major down payment on a brighter health-care future. Republicans have a limited window for repeal and replace, and this is a once-in-a-generation opportunity. Democrats understand this, even if some conservatives don't.